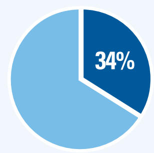
WHY USE AN ESOP?

A COMMON CONCERN OF BUSINESS OWNERS IS WHEN AND HOW TO TRANSITION THEIR BUSINESS.

The average business owner has nearly 80% of their net worth tied to the value of their ownership in their business.[1] In order to retire, most business owners need to monetize assets tied up in the business.



ONLY 34%

Have a formal succession plan[2]

ONLY 13%

Plan to pass business to family[2]

WHY CONSIDER AN ESOP VERSUS OTHER EXIT STRATEGIES?

With an ESOP, or Employee Stock Ownership Plan, the owner achieves **LIQUIDITY** and leaves a **LEGACY.**

LIQUIDITY

- A business owner has control over how and when they will transition the business
- Tax advantages for the business owner and the company
- Create a market where one may not exist
- Owner can remain involved in the business if desired, with the ability to sell the business on their terms—gradually or all at once

LEGACY

- **Keep business intact and jobs in the community**
- **Increase employee morale and performance**
- **Employee retirement readiness**

AN ESOP IS A QUALIFIED RETIREMENT PLAN MUCH LIKE A 401(k) but with special features that give the owner flexibility and control.

BUSINESS AS USUAL, ONLY BETTER!

[1] *Bloomberg Businessweek*, May 15, 2013 http://www.nwam.net/Retirees-Spark-a-Surge-in-Small-Business-Sales.c5067.htm

[2] U.S. Trust Insights on Wealth & Worth, September 2014

Asset allocation/diversification does not guarantee a profit or protect against a loss.

HOW DOES AN ESOP WORK?

There are many ways to structure an ESOP transaction depending on a variety of different factors.
Here is an example of a typical leveraged ESOP transaction:

1 Company gets loan (ESOP Trust set-up)

The company obtains financing from a bank, the seller, another source or some combination of sources.

2 Company makes loan to ESOP trust

The company, in turn, loans the money to the ESOP.

3 ESOP trust buys shares from owner

The ESOP then uses the funds to purchase shares from the owner.

4 Owner receives payment for shares

The owner receives cash, notes or a combination as payment for their shares.

Over time, employee ownership is created as the company makes tax deductible retirement plan contributions to the ESOP, and shares are allocated to employee accounts based on an equitable allocation formula, as prescribed in the plan document.

Not only is an ESOP an option to consider for addressing critical business owner needs in the areas of diversification and business succession, but it also creates broad company ownership. In addition, it helps employees prepare for retirement — in a time when most have not saved nearly enough.[3]

AN ESOP CONSULTANT AT THE PRINCIPAL FINANCIAL GROUP® is ready to work with you and your financial professional on next steps.

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[3] 6 in 10 workers report they and/or their spouse have less than $25,000 in savings and investments (not including the value of primary residence and defined benefit plans). (Source: EBRI Retirement Confidence Survey, 2014)

WE'LL GIVE YOU AN EDGE®

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